Retirement Planning

Retirement Planning for Singaporeans: A Simple Yet Comprehensive Guide

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If you're at the beginning or at the peak of your career, retiring from the workforce is probably the last thing on your mind and it likely seems too early to plan for it. The truth is, it's never too early to begin retirement planning, even if you are decades away from the official retirement age.

If you're in your 20s, the advantage of time and the power of compounding interest can grow small amounts into comfortable sums. In your 30s, you're seeing your income rise, but expenses might be on the high side as you look at buying your first car and home. In your 40s, you're likely at your peak earning years, but also probably supporting kids of your own and your aging parents.

It's tempting to delay retirement planning and prioritise more pressing financial needs. But the longer you delay, the harder it will be to build a big enough nest egg. Starting early on your retirement plan makes it easier to secure the funds you need to live comfortably for the rest of your life. And it's actually less complicated than you might think.

What is the retirement age in Singapore?

The first step to retirement planning is to determine how much time you have to save up for it. To do this, you need to know your retirement age. For the sake of this article, we'll take Singapore's official retirement age, but you can adjust your plan if you wish to retire earlier or later than that.

The minimum retirement age in Singapore is 63 years

From 1 July 2022, the retirement age has been raised to 63, and will gradually be raised to 65 by 2030. This means that your employer can't suggest that you "retire early" or dismiss you from your job before age 63, for age-related reasons. The minimum retirement age protects you and gives you a little more time to boost your savings until you decide to leave the workforce for good. .

However, you don't have to retire at 63 if you want to keep working. Singapore has what we call a "re-employment age", a period of time where your company can still offer you employment. At the moment, the re-employment age is 68, so this means you can choose to work for 5 more years. Re-employment contracts last about a year and are offered as long as you have satisfactory work performance and are medically fit to continue working. Similar to the retirement age, the re-employment age will also be gradually raised to 70 by 2030.

CPF will only provide monthly payouts from age 65

As you know, a portion of your monthly salary goes to your CPF to fund your healthcare and retirement. On your 55th birthday, a **Retirement Account (RA)** will be created for your monthly retirement payouts.

From age 55, you have the flexibility to withdraw your CPF savings after setting aside the applicable **retirement sum** in your RA.

You can withdraw at any time, whether in full or partially, and as frequently as you like.

At age 65, when you will begin to receive monthly payouts from your Retirement Account.

This 2-year gap between the official retirement age and CPF's retirement age is one of the reasons why planning is important. Although you can ideally keep working until age 65, events out of your control can force you into an earlier retirement than planned. For instance, you may fall ill and be considered medically unfit to work, or your company may be unable to re-employ you.

Having a retirement plan thereby ensures that your daily expenses will be met the moment you are out of the workforce - whenever that happens.

How much does it cost to retire in Singapore?

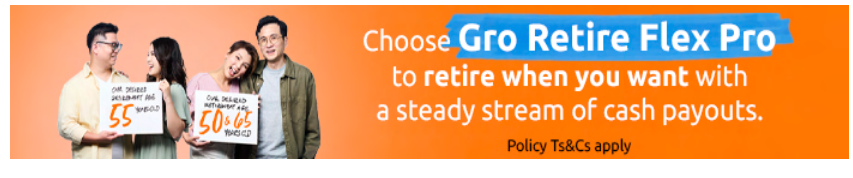
Now that you know when you'll be retiring, how much should you have in your retirement accounts by age 63? Let's look at the factors that influence how much it will cost for you to retire in Singapore.

Your life expectancy

Your retirement savings need to last you for the rest of your life, so take note of how long you can reasonably expect to live.

Thanks to Singapore's fantastic healthcare system, we have one of the highest life expectancies in the world. According to the latest data from **SingStat**, the average life expectancy in Singapore is 83.5 years. Women have a longer lifespan of 85.9 years, compared to men at 81.1.

Assuming you retire at 63, that adds up to about 18 to 22 years that you'll need to plan for.



Calculating how much you'll need for retirement

Let's start thinking about how much money you'll need per month.

What kind of retirement lifestyle do you want to live?

According to a **2019 study**, a single man or woman aged 65 will need at least $1,379 a month to live at the **most basic standards of living**. A couple aged 65 and above will need $2,351 for the both of them. It does not cover extravagances like air-conditioning, a car, as well as any healthcare and long-term care costs you may need to fork out cash for.

Ask yourself if you are an "enjoy the simple things in life" kind of person, or if you're one to desire living out your golden years in comfort? How much you need to save depends on what you want to do, how comfortable you want to be, or how prepared you are to adjust to a more frugal lifestyle during your senior years.

Will you need to support anyone else?

If you have any dependents who will rely on you even during your retirement years, for instance a non-working spouse or a child with special needs, it's important to include their expenses in your retirement planning. Get a benchmark for this figure by looking at how much you spend for your dependents' living expenses today and add a little buffer for good measure.

Will you have any fixed expenses?

This is another important item to consider. If you have any debt, will it be paid off by the time you retire? Do you envision yourself still having a domestic helper? Are there investments or insurance policies you will need to continue paying premiums on?

A simple formula to calculate how much you need for retirement

By now you should have some idea of how much you'll need per month. If you're having trouble coming up with a number, try using your current monthly income and expenses as a starting point. Think about the kind of lifestyle your current monthly pay affords you and whether you'll need more or less as a retiree. Remember: many of the things you're spending on in your 20s to 40s (e.g., a gym membership or mortgage payments) may not apply in your retirement. After factoring in expenses to support your dependents, remember to also buffer in some budget for healthcare, as health will become more of a concern as you age.

Once you've arrived at a figure for your monthly retirement needs, follow this simple calculation to arrive at your ideal retirement amount:

Monthly Retirement Needs x 12 months x (Estimated Years of Retirement)

Or you can use **Income's retirement calculator** to get an estimate of how much you need for a comfortable retirement. If you're really curious about how it adds up, here's a quick table that illustrates the math.

Going back to the study's conclusion that **$1,379/month** is what you'll need for a very simple retirement, you're looking at roughly **$16,548/year**. To make this simpler, there's no inflation included, so you'll need to put your savings into a retirement plan that will beat inflation for this illustration to work. It also excludes what you should have saved in your CPF Retirement Account.

Retirement Age	Average Life Expectancy	Retirement Years	Basic Estimate (Today's Value)
63	83	20	$330,960
65		18	$297,684
67		16	$264,768
70		13	$215,124

While you need less savings the longer you stay in the workforce, it's unrealistic to assume that you'll keep working and earning the same income until age 70. Anything can happen that might force you to retire earlier than planned. There are no downsides to being cautious and planning your retirement such that, should you need to, you will be able to retire with peace of mind by age 63.

When is the best time to start retirement planning?

With so many financial priorities to balance, it seems like there's never a good time to start saving for retirement. The truth is, the best time to start retirement planning is **now**. The younger you are when you start, the easier it will be to save the amount you need, thanks to compounding interest.

Why your 20s is the most ideal time to start

In your 20s, you probably think you have a whole lifetime to prepare for your retirement. While that may be true, you're also in the best place to start building a comfortable retirement sum.

Fewer financial responsibilities

It's tempting to spend your entire salary as you wish, but your 20s will be the time in your adult life when you have the fewest financial responsibilities. While you aren't paying for a mortgage, utilities, or raising children, it's generally a lot easier to set money aside for retirement.

Longer time horizon

Even if you have more financial responsibilities than the average Singaporean 20-something, it's still wise to start your retirement plan now. You have the advantage of time, which lets you make full use of compound interest. This means that even if you invest a few hundreds, you can end up saving more for retirement compared to someone who started retirement planning later.

Why your 30s is not too late

At this age, you have quite a few financial commitments on your plate. You may have already bought your first HDB, have gotten married, or are expecting your first child.

If retirement planning has fallen to the wayside, remember that your 30s is not too late to begin. Even if you start at 35, you have close to 30 years to build a comfortable nest egg.

To prepare for retirement, you need to start by freeing up as much of your monthly income as possible for retirement-building instruments. You don't need to start living on the bare necessities in life like a monk — but lifestyle changes will need to be made. For instance, see where you can cut costs on leisure and entertainment. Instead of spending your annual bonus if you have one, consider funnelling it towards your retirement funds.

Start by conducting a cash flow analysis of your current financial situation to find out how much you're really spending/saving monthly. Here's a simple example of a cash flow analysis for a married 35-year-old mid-career professional making $7,000 a month.

Monthly Expenses		Monthly Income	
Mortgage	$1, 500	Income	$7,000
Health	$200	CPF	($1,200)
Utilities	$200		
Groceries	$400		
Dining & entertainment	$1,000		
Childcare costs	$750		
Transportation	$500		
Credit cards	$500		
Total Expenses	**$5,050**	**Total Income**	**$5,800**
Total Savings	**$750**		

Generally speaking, $750 a month won't go far towards reaching a meaningful retirement savings goal. In your 30s, you need to set aside at least 20% of your income minus CPF for financial instruments like retirement plans and investment plans. In the case above, $1,160 to $1,740 will go much further towards building a retirement nest egg.

Take a deeper look at your monthly expenses and evaluate what can be reduced. These additional savings can bring you closer to saving an ideal amount of 20% of your monthly income. In cases where you are unable to cut down on any expense, this exercise will help to display any savings shortfalls, and show how much your household is spending every month.

Why you can still catch up in your 40s

In your 40s, you are likely to be at the peak of your earning years and may have more on your plate as a member of the **sandwich generation**. The good news is that you still have 20 years to go until you retire hence, retirement planning should be your number one priority.

Besides examining your expenses and finding opportunities to increase savings, consider growing your CPF retirement savings with the **CPF Investment Scheme (CPFIS)**. CPFIS enables you to invest a portion of your OA and SA to grow your savings at a potentially higher interest rate. Considering that 20% of your salary goes into your CPF, this scheme is worth exploring.

As long as you have a minimum balance of $20,000 in your OA and $40,000 in your SA, you can participate in the scheme to utilise a **variety of investment products**, including Singapore Government Bonds. However, keep in mind that just like any other investment, there is risk involved with using CPFIS. Don't forget to follow safe and smart investing practices.

You can also do a voluntary top-up of your SA with the **Retirement Sum Topping-up Scheme**. To do this, you need to be below 55 years old, and have less than the current Full Retirement Sum in your SA, which is inclusive of the net savings you have withdrawn under CPFIS.

The advantage of this scheme is that your savings in SA earn an interest rate of 4% a year, unlike your OA savings, which earn an interest rate of 2.5% a year. To calculate just how big of a difference in savings this scheme can make compared to your OA's normal interest rate, check out this **calculator** by CPF.

Your 3-part retirement game plan

When we talk about "saving for retirement", where exactly should you be saving your money? Definitely not in a Milo tin under your bed. Your retirement savings should be kept in a financial instrument where it can accumulate enough interest to beat inflation. Otherwise, it won't be worth the same amount in 25 to 30 years' time.

At the same time, you'll need financial protection from life's unexpected events, so your retirement savings won't get impacted in case the worst happens.

This 3-part game plan gives you an idea of what financial instruments you'll need to secure a comfortable retirement.

Part 1: Insurance

While it might not be the first thing you think of, insurance is an integral part of any financial plan. While you're working hard to build your savings, the last thing you want is for your finances to be wiped out by a sudden illness or accident.

Insurance prevents this by protecting your ability to earn, financing your expenses, and growing your retirement savings in case you become critically ill, or are unable to work due to an accident. Your insurance needs may change with **every life stage**, but the following should be particularly useful as you build your nest egg.

Health insurance

The average Singapore household spends about **5% of their monthly expenditure** on healthcare costs, and medical care costs will **continue to rise**. In case you fall ill, **health insurance** covers hospitalisation expenses and eligible outpatient treatments.

Long-term care insurance

Long-term care insurance helps to cover your care expenses in case you become severely disabled.

Life insurance

Life insurance is something you would buy to protect the financial future of your loved ones. If, for instance, you are the family's breadwinner or your spouse is dependent on you to build the conjugal nest egg, life insurance should be of higher consideration. In case you die, get diagnosed with a critical illness or become totally and permanently disabled, life insurance pays a lump sum that will allow your family to meet their ongoing expenses, protecting your spouse's own savings and (depending on the size of the payout) perhaps even helping fund your spouse's retirement.

There are two kinds of life insurance - term life and whole life. Which one you get depends on your needs and financial ability.

Term life insurance

Term life insurance plans like **Star Term Protect** are simple, straightforward, and very affordable. This is a basic protection plan with no cash value. The premiums that you pay will go towards providing you with higher insurance coverage. In the event of death, terminal illness, total and permanent disability (TPD before the anniversary immediately after the insured reaches the age of 70) during the term of the policy, the policy will pay the sum assured, and the policy will end when the payment is made.

Term insurance is ideal if you want a financial safety net for a limited time period, such as until retirement. The downside is it's a basic protection plan with no cash value hence you won't recover the premiums paid if you stay healthy and well throughout the policy term.

Whole life insurance

With whole life insurance plans, like Income's **Star Secure Pro**, you can choose how long you want to pay your premiums for. For plans like these, your whole life will be protected, and you can also choose a coverage of up to 500%[1,2] of the sum assured up to age 75 or 80 for death, terminal illness and total and permanent disability.

Unlike term plans, whole life plans give you a cash value if no claim is made during the policy term. Depending on the performance of the plan, the value of your premiums can even grow. For this reason, whole life insurance can be a valuable addition to your retirement planning portfolio.

Part 2: Regular savings plans

A regular savings plan is one of the more straightforward ways of saving and growing your money. Depending on the plan's payment term, you can either pay a single premium, or on a monthly, quarterly, half-yearly or yearly basis, which is invested to grow during your policy term. You can then decide to receive your cash benefit as monthly payouts or as a lump sum, depending on the feature of the plan.

Some regular savings plans may also have a small insurance component that gives you protection in case the unexpected happens to you such as death or total and permanent disability (TPD before age 70).

Since your goal is to save for retirement, it is likely that you won't need the money until several decades from now. So you can consider choosing an insurance savings plan like **Gro Retire Flex Pro**, which provides you with monthly cash payouts[3]. It gives you the option to start receiving your monthly cash payouts[3] after an accumulation period ranging from 5 to 50 years for single premium plans or ranging from 10 to 50 years for regular premium plans, depending on your lifestyle and financial ability.

Part 3: Investments

Investing offers a more active approach to reach your retirement goals by accelerating your money's growth over time. At its most basic, investing offers you interest that you can compound. Compounding interest, though simple, can help your money grow faster than you might imagine.

One way to harness the power of compounding interest is by investing in a product that enables you to reinvest your gains to accelerate your money's growth. Some investment-linked insurance products do this by automatically reinvesting any payouts earned that you don't withdraw, along with your principal sum. This helps your money to grow faster.

Another tool you can leverage is the **Supplementary Retirement Scheme (SRS)**, a voluntary savings scheme offered by the government to help you save and invest for retirement. You contribute a maximum of $15,300 a year to your SRS account and invest the money in SRS-approved products such as exchange-traded funds (ETFs) and shares.

That said, always remember that investing comes with risks, so ensure that you do your research and tread carefully **before making any investments**. You can also utilise your**$500 SkillsFuture credits** to learn more about investing and how it plays a role in retirement planning.

Now is the best time to start planning for retirement

Although planning for retirement can be simple, there's a lot of information to digest before you get started. It's okay not to understand everything in one go. Educating yourself is the first step in retirement planning, and it can take a while to understand what your options are and what to do next.

Self-study is important, but you don't have to go through this journey alone. A little bit of financial assistance *can* help in your decision-making and future planning. **Speak to a financial advisor** to get your retirement on track.

Important notes:

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